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SUBJECT: LESOTHO: EXPANDED BUDGET SUPPORTS INFRASTRUCTURE, CIVIL SERVICE

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¶1. SUMMARY: In February, Minister of Finance and Development Planning Dr. Timothy Thahane presented a 2008/2009 budget to Lesotho's Parliament that towers 23% over last year's government expenditures. Minister Thahane praised new government initiatives, such as increased spending on infrastructure, health, education, and business development, and warned about threats to the economy such as declining transfer payments from the South African Customs Union (SACU) and turbulence in the fragile textile sector. A 15%-30% increase in the wages of Lesotho's civil servants will make one of Africa's most expensive public payrolls per capita even pricier. END SUMMARY.

The Budget

¶2. On February 13, Minister of Finance and Development Planning Dr. Timothy Thahane presented the GOL's 2008/09 budget to Parliament. The budget places the GOL's total expenditure and net lending at M9.1 billion (approximately \$1.3 billion), of which 88% is financed by domestic revenue and the remainder is funded by grants and soft loans from multilateral banks and development institutions. The budget is 23% larger than the previous year. Total GOL revenues are projected to be M9.0 billion, leaving a projected budget deficit of M399.4 million (approximately \$57 million, or 2.9% of GDP). These expenditures include a 15%-30% salary increase for civil servants, which is much greater than the previous year's 10% inflation salary adjustment. The GOL's 2008/09 wage bill will account for 23% of the government's total expenditures.

¶3. Minister Thahane stated that the non-wage budgetary increases were largely focused on the following areas: 1) building economic infrastructure including urban and rural roads, telecommunications, water, and electricity; 2) investing in health and education; 3) "unleashing the energies of private sector" through reduction of red tape and the high bureaucratic costs of doing business; and 4) addressing the financing constraints for small, micro, and medium sized enterprise, particularly for women and youth, and diversifying export products and markets.

Risks and Challenges

¶4. In his budget speech, Thahane discussed several challenges for the GOL regarding the implementation of the 2008/09 budget. First, he mentioned that AGOA preferences now do not fully shield Lesotho's textile sector from large, experienced, and aggressive competitors such as Vietnam, Cambodia, Bangladesh,

China, and India. Second, Thahane mentioned that Lesotho's dependence on customs transfer payments from SACU poses a challenge given the slowdown in the South African economy and global reductions in tariffs as a result of trade liberalization. He asserted that these factors will negatively affect the SACU revenue pool, as well as Lesotho's share of it. Managing SACU revenues and building adequate reserves for the future are therefore critical for Lesotho, said Thahane.

15. According to Thahane, the Government of Lesotho is concerned about the exodus of its labor force to other countries, the low standard of living for its people, and that its weak economic growth is not sufficient to create jobs and reduce poverty. In addition, the country is experiencing daunting challenges from global competition in the textile manufacturing sector, and an investment climate which should be improved. The Minister stated, "Lesotho cannot afford to lose to other countries the race for jobs, the race for better life for its entire people, and the race for high sustainable and shared economic growth."

An Expensive Civil Service, But Good Transparency

16. COMMENT: Following the budget speech, local newspapers primarily commented on the hike in civil servant salaries, which are poised to make one of Africa's most expensive public payrolls per capita even pricier. While Minister Thahane appears fully cognizant of major problems for Lesotho's future revenue stream, such as trouble in the textile industry and declining SACU revenue sharing payments, the GOL still poured massive new spending into enlarging recurring expenses (i.e., government wages). However, as the GOL has operated in the black for several consecutive years, such issues raise only passing concern.

17. Of greater interest than the actual figures, perhaps, is the transparency involved in this annual budget exercise. Thahane's presentation to Parliament, observed by the diplomatic corps,

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was one of the GOL's highest profile events of the season. On the evening of the budget speech, Thahane addressed a question and answer session hosted by a local bank and attended by diplomats and a range of private sector representatives. He subsequently returned to Parliament for subcommittee and general debate and scrutiny of the GOL's budget. Although the governing party's majority assures eventual passage of the budget, the GOL's transparency has helped increase local confidence in the nation's fiscal endeavors. END COMMENT.
NOLAN